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RR RUEHCN RUEHGH
DE RUEHGH #0436/01 3010232
ZNR UUUUU ZZH
R 280232Z OCT 09
FM AMCONSUL SHANGHAI
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INFO RUEHBJ/AMEMBASSY BEIJING 3131
RUEHCN/AMCONSUL CHENGDU 2254
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SUBJECT: ANHUI'S 2009 ECONOMIC ROLLER COASTER RIDE

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 1B. (B) SHANGHAI 104
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SUMMARY

1. (SBU) Anhui Province boasted robust economic growth through the first three quarters of 2009 despite concern earlier in the year of a slowdown. Much of the province's growth is due to the Central Government's economic stimulus measures, including investment in infrastructure. Most of Anhui's migrant workers have been able to find jobs in coastal China during the year, while others have launched new businesses at home. End Summary.

TRAVEL TO ANHUI

2. (SBU) Deputy Principal Officer (DPO), PolOff, and Pol Assistant visited Hefei, Anhui's provincial capital, on October 22. They met with officials from the Provincial Development and Reform Commission and Provincial Foreign Affairs Office, as well as professors at Anhui University's Economic Institute.

GROWTH REBOUNDS IN FIRST HALF

13. (SBU) Anhui's provincial GDP increased 11.8 percent in the first half of 2009 and 12.9 percent through the first three quarters of the year. Anhui's rapid GDP growth through the first half of the year was the seventh fastest pace among China's provinces, said Anhui Provincial Development and Reform Commission Deputy Director General Wu Jinsong. The province's industrial growth has rebounded, and Wu boasted that Anhui's year-on-year industrial growth rate for the month of September ranked first in China. The current rate of economic growth is "better than expected," Wu stated.

14. (SBU) Anhui's resurgence follows a period of uncertainty during the winter of 2009-10. Wu admitted the provincial government was in a "panic mode" between October 2008 and March 2009 when it was not yet clear if the province would emerge unscathed from the global financial crisis and China's own economic downturn, especially after the price of coal and steel (both produced in Anhui) dropped dramatically in November 2008. Although officials (including Wu) initially had expressed optimism in October 2008 that Anhui's low level of dependence on exports would help the province deal with the crisis (Ref A), there was considerable concern in late February that Anhui would

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face significant economic challenges in 2009 due to secondary effects on the steel and auto sectors resulting from declining exports (Refs B, C).

15. (SBU) By April, high-level provincial officials had begun to express cautious optimism about Anhui's prospects. At the 4th Central China Expo in Hefei on April 25-26, Anhui provincial government officials said they believed the province was recovering, and Anhui would focus on improving infrastructure to build a more attractive investment environment (Ref D). In addition, Governor Wang Sanyun told the Consul General during an early April visit the Central Government's economic stimulus measures would provide employment and expand the transportation network in the province (Ref E).

ECONOMIC STIMULUS IN ANHUI

16. (SBU) Anhui's recent provincial investment statistics reflect the success of the Central Government's economic stimulus measures. Anhui relied heavily on fixed asset investment (FAI) to spark its recent growth, as FAI grew by 32.7 percent year-on-year during the first half of 2009. Wu credited the Central Government's economic stimulus policy for Anhui's resurgence. For the first nine months of 2009, the growth rate for bank loans in Anhui was 34.7 percent year-on-year under the Central Government's less restrictive monetary policy. Of that increase, Wu said, 60 percent of the loans supported infrastructure and investment projects in the province.

17. (SBU) Rail infrastructure has been a key component of Anhui's FAI. Wu pointed out that the Beijing-Shanghai high-speed

railway soon will pass through eastern Anhui, and the province also is building a high-speed rail from Hefei to Bengbu. A new Liu'an-Fuyang rail line will facilitate coal transportation. The provincial government plans to build an inter-city railway to connect Ma'anshan, Wuhu, and Tongling with Nanjing and Shanghai. The Beijing-Fujian high-speed railway also will cross Anhui, Wu stated. At the same time, Hefei is constructing a new international airport on the western side of the city, which is due to be completed in 2012. The province continues to expand its highway network, Wu said.

CONTRIBUTIONS BY MIGRANT WORKERS

18. (SBU) Previous concerns about Anhui's migrant workers finding new jobs in coastal areas during the economic downturn appear to have lessened in recent months. With close to one-sixth of Anhui's population of 66 million working outside the province (many in the Yangtze River Delta region), the provincial government was relieved to discover most workers had found jobs since the late January Lunar New Year holiday, Wu said, reporting 98 percent of Anhui migrant workers successfully found employment in YRD cities. Zhang Deyuan, a professor specializing in rural issues at Anhui University Economic Institute, acknowledged that Anhui's migrant worker situation is "better than expected," as nearly all of Anhui's workers below

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the age of 40 had found new jobs while some older than 40 had chosen to remain in the countryside. Zhang noted that the older migrants who had stayed behind had had experience as farmers while young, while the younger migrants often had not worked the fields as children and had no tolerance for that possibility now.

19. (SBU) Wu and Zhang both also claimed an increasing number of migrant workers are returning to Anhui to use technical knowledge gained in the YRD to establish new businesses in their home province. Wu said 150 new industrial parks have been set up in the province to assist migrant workers who want to set up new businesses. (Note: See Ref B for information on one development zone outside Fuyang in northwestern Anhui. End Note.) An October 22 People's Daily (Renmin Ribao) featured Hefei's industrial innovation efforts on the front page, crediting municipal government investments in new businesses for fueling Hefei's 16 percent GDP growth through the first half of the year.

COMMENT: AROUND THE NEXT BEND?

10. (SBU) CongenOfs have traveled frequently to Anhui in the past year and heard a different story each time about the economic situation. From outright optimism about weathering the storm in October 2008 to serious concerns in February 2009 to cautious optimism in April 2009 to a current sense of confidence, Anhui's economy has experienced a roller coaster ride of ups and downs. Despite the recovery, Anhui still faces a significant challenge in moving towards a more consumption-driven economy. With an emphasis on fixed asset investment and a weak social safety net, the province may be able to produce eye-popping GDP growth statistics but may not be adequately addressing long-term concerns. Nevertheless, Anhui's ability to maintain economic growth (and social stability) through a difficult period likely is a positive sign for the

Central Government, which implemented the economic stimulus package to pave the way in Anhui.
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